

Technical Accounting Alert

IFRS 15 *Revenue from Contracts with Customers*

Introduction

On 28 May 2014, the International Accounting Standards Board (IASB) published IFRS 15 *Revenue from Contracts with Customers*, the product of a major joint project between the IASB and the US Financial Accounting Standards Board (FASB). The previous requirements of IFRS and US GAAP were not harmonised and often resulted in different accounting treatments for economically similar transactions. In response, the Boards have developed new, fully converged requirements for the recognition of revenue under both IFRS and US GAAP.

IFRS 15:

- replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and some revenue-related Interpretations
- establishes a new control-based revenue recognition model
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time
- provides new and more detailed guidance on specific topics
- expands and improves disclosures about revenue

Scope

IFRS 15 will apply to contracts with customers to provide goods or services, including construction contracts and licencing of intellectual property. It will not apply to certain contracts within the scope of other IFRSs such as lease contracts, insurance contracts, financing arrangements, financial instruments, guarantees other than product warranties, and non-monetary exchanges between entities in the same line of business to facilitate sales to third-party customers.

Summary of Impact

For some entities whose customer arrangements consist of relatively straightforward contracts for the delivery of a single product or service, the timing and amount of revenue recognised may not change. Other entities may find the impacts to be more pervasive depending on the precise nature and complexity of their contractual arrangements with customers. All entities should be prepared to carefully reassess their revenue recognition policies and consider whether revisions are needed, and to look carefully at the new disclosure requirements which have been significantly expanded.

All TA alerts can be found on GTAssist (http://gtassist.au.gt.local/?page_id=4215) under Professional Services/Audit & Assurance/Alerts & News/Technical Accounting (TA) Alerts for Grant Thornton staff only and the Grant Thornton website (www.grantthornton.com.au) under Publications & News/Tools and resources/Technical publications/Local technical and financial reporting alerts. This alert is not a comprehensive analysis of the subject matter covered and is not intended to provide accounting or auditing advice. All relevant facts and circumstances, including the pertinent authoritative literature, need to be considered to arrive at accounting and audit decisions that comply with matters addressed in this alert. Grant Thornton is a trademark owned by Grant Thornton International Ltd (UK) and used under licence by independent firms and entities throughout the world. Grant Thornton Australia Limited is a member firm within Grant Thornton International Ltd. Grant Thornton International Ltd and the member firms are not a worldwide partnership. Grant Thornton Australia Limited, together with its subsidiaries and related entities, delivers its services independently in Australia.

Liability limited by a scheme approved under Professional Standards Legislation.

In particular, IFRS 15 includes important new guidance on:

- contracts involving the delivery of two or more goods or services – when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts
- timing – whether revenue is required to be recognized over time or at a single point in time
- variable pricing and credit risk – addressing how to treat arrangements with variable or contingent (e.g. performance-based) pricing
- time value – when to adjust a contract price for a financing component
- specific issues, including –
 - non-cash consideration and asset exchanges
 - contract costs
 - rights of return and other customer options
 - supplier repurchase options
 - warranties
 - principal versus agent
 - licencing
 - breakage
 - non-refundable upfront fees
 - consignment and bill-and-hold arrangements

Effective date and transition

IFRS 15 is effective for reporting periods beginning on or after 1 January 2017. Earlier application is permitted. Transition is retrospective, subject to various practical expedients.

Grant Thornton Comment

Representing the culmination of more than 5 years' effort, we applaud the two Boards for delivering a converged Standard in this critical area which will affect almost every revenue-generating entity that applies IFRSs. While the path to convergence has been challenging and sometimes controversial, we see this Standard as a landmark achievement that will provide a major boost for investors looking to compare company performance across borders.

For some entities the new Standard will have a significant impact on their top line, while for others its impact will be more limited. What is certain is that entities should start their impact assessment sooner rather than later so as to prepare themselves properly for the changes that may be required.

Grant Thornton plans to issue a more detailed special edition IFRS Newsletter on this topic in the near future which will be available on our website (<http://www.grantthornton.com.au/Publications/Tools-and-resources/Technical-publications/index.asp>).

Australian context

The Australian Accounting Standards Board (AASB) is expected to issue the equivalent Australian Standard (AASB 15 *Revenue from Contracts with Customers*), along with a new Exposure Draft (ED) on income from transactions of Not-for-Profit (NFP) entities by September 2014. It is expected that this ED will propose requirements for the recognition, measurement, presentation and disclosure of income from transactions of Australian NFPs in the public and private sectors that would replace AASB 118 *Revenue*, AASB 111 *Construction Contracts* and the income recognition requirements of AASB 1004 *Contributions*.

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at NAS@grantthornton.com.au.